Position Statement on Challenges Facing Online Video Distributors

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Is not to provide inside industry knowledge of OVD's and their challenges

<u>Is</u> to provide insights generated from demand-side research that I and others have conducted

I see **three** types of challenges facing OVDs

Each stems from <u>asymmetries</u> between OVDs and MVPDs

I will discuss each type of challenge using the following approach:

- a) Make a general point about the type of challenge
- b) Identify research findings that support the point
- c) Briefly discuss methods and data that produced the supporting findings

Challenge #1: OVDs are "downstream disintegrated" OVDs do not control the means of video transmission

This can be a disadvantage, vis a vis MVPDs, who can bundle services (e.g., Triple Play)

Bundles can help attract and retain customers, since they lower incremental costs of services

Supporting Research Finding

Triple Play bundles help retain customers

In particular, a Triple Play purchase one year lowered the likelihood of dropping TV subscription the following year

Similar findings for Internet and Telephone, but strongest finding was for TV

Research Method & Data

Used pseudo-panel of households over 3 years (2007-2009)

Observed Triple Play, Internet, TV, & Telephone purchase decisions

Matched on demographics & location

Focused on effects of Triple Play with cableco, but Triple Play offerings now common for cable, satellite & telcos

Challenge #2: OVDs are "content limited" Limitations in content OVDs offer & when they offer it

Unwillingness of vertically integrated MVPDs to license content

MFN & ADM clauses can hinder ability of OVDs to work with programmers, and limit timing of content offerings

Supporting Research Finding

Relative content offerings were not a notable driver of households' decision to "cut the cord"

Possibly due to windowing of content, making it less attractive to households

Research Method & Data

Again built pseudo-panel, matching households during 2007-2009

Importantly, observe household content preferences

"Diff-in-diff" approach...

For a household preferring specific content (e.g., Comedy Central), measured difference in likelihood to drop traditional TV service (relative to a household that did not prefer Comedy Central) when Comedy Central content became available via OVDs

Challenge #3: OVDs are "new"

Television watching, and even web surfing, were well established by OVD arrival

Such behaviors may be resistant to change

If so, OVDs may struggle for market share because they require households to alter these behaviors

Supporting Research Finding

Online attention patterns have been remarkably stable, even over a rather tumultuous time for the Internet

The distribution of the breadth and depth of online attention on the home device is virtually unchanged between 2008 & 2013

This, despite huge changes in online video availability and points of contact with the Internet

Research Method & Data

Clickstream data for thousands of households in 2008 & 2013

Observe all domains they visit & for how long on their home device for the entire year

Construct & calculate measures of breadth & depth

Breadth = HHI for time across domains each
week

<u>Depth</u> = % of visits lasting at least 10 minutes

This Finding Suggests...

New video options must take time from longer slots of attention...they generally do not take up several shorter slots

In general, there appears to be strong persistence in behavior on a device that uses content provided by OVDs

If this is true for traditional TV devices, this could be a significant barrier

OVDs face several challenges, and empirical analyses support this claim

The challenges I've highlighted in this statement do not necessarily per se imply regulatory changes,

However, they hopefully prove useful toward further understanding of this complex and dynamic market